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THE ECB AND THE QUEST FOR COMPETITIVENESS OF THE EURO-ZONE:

From the competitive devaluation of the Euro to QE

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Abstract:

That the lack of competitiveness of EU Member States in the wake of the globalisation era was a problem from the start of EMU is clear from the various interventions on this issue by the European institutions. These started from the White paper on Growth, Competitiveness and Employment, of 1993, up to the various versions of the Lisbon agenda and agenda 2020.

It might even be possible to hypothesise, in line with Colin Crouch and the literature on the political economy of competitiveness, that the establishment of EMU was an attempt made by the dominant socio-economic sectors of the Member States to regain some of the competitiveness lost with the advent of the globalisation era.

Accordingly, the role of the ECB to save the Euro-zone dominant socio-economic sectors has been divided into two phases. In the first phase, the strategy was to rely on the depreciation of the Euro vis-à-vis the dollar, which indeed gave some results in the first years of life of the European currency.

This leaves open the question of EU competitiveness to the present day, or better to the days of the global financial crisis.

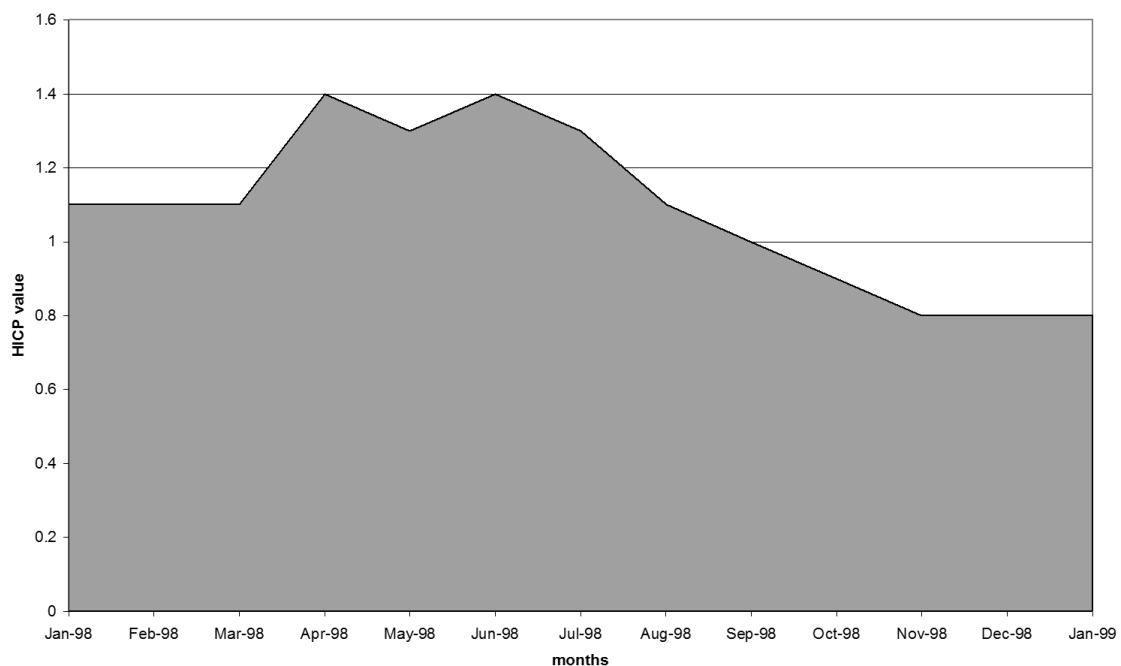
With respect to this, it is undeniable that the burden of the costs of the global financial crisis was inflicted on the weakest countries of the system, through the two related phenomena of the sovereign debt crisis and the ensuing austerity programmes. This is very far from configuring that solidarity between the EU Member States often recalled in the literature which could only be achieved by the establishment of a true federalist fiscal system, a system that, at the moment, is not even at the stage of infancy.

The real problem of the Euro-zone from the start: inflation or competitiveness?

The emphasis of the European Treaties and institutions at the start of the Economic and Monetary Union concentrated above all on the inflation rate, particularly the need to keep inflation stable. Despite this, the real problem affecting the Euro area even then was clearly not inflation.

At the onset of the Euro-zone, in 1999, the Harmonised Index of Consumer Prices (HICP), the primary concern of the newly established ECB, was at an unprecedented low of 0.8%, configuring the possibility of deflation.

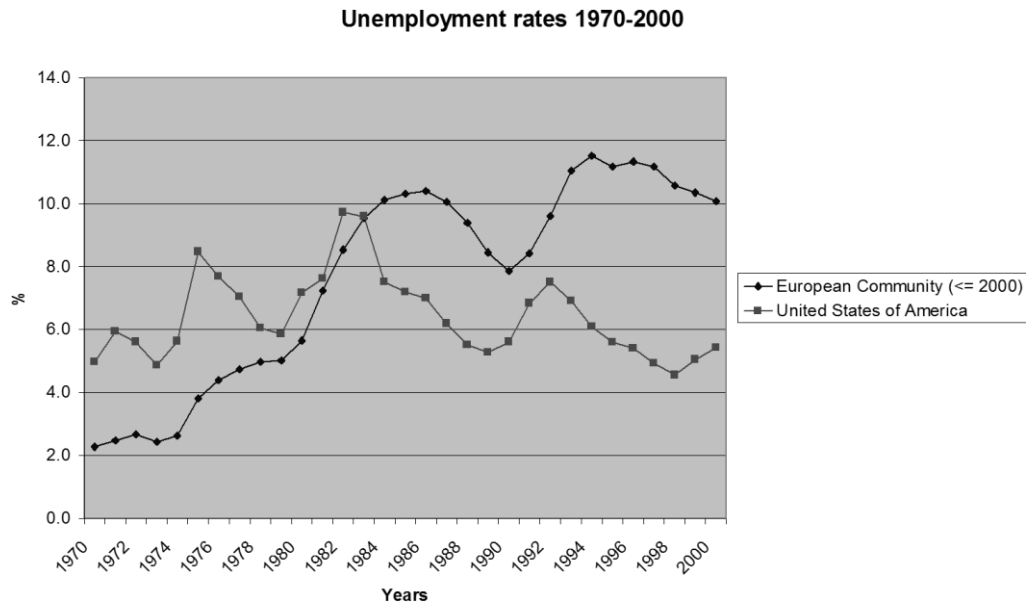
Figure 0-1: HICP in euro-area (% changes) 1998-1999



Source: ECB

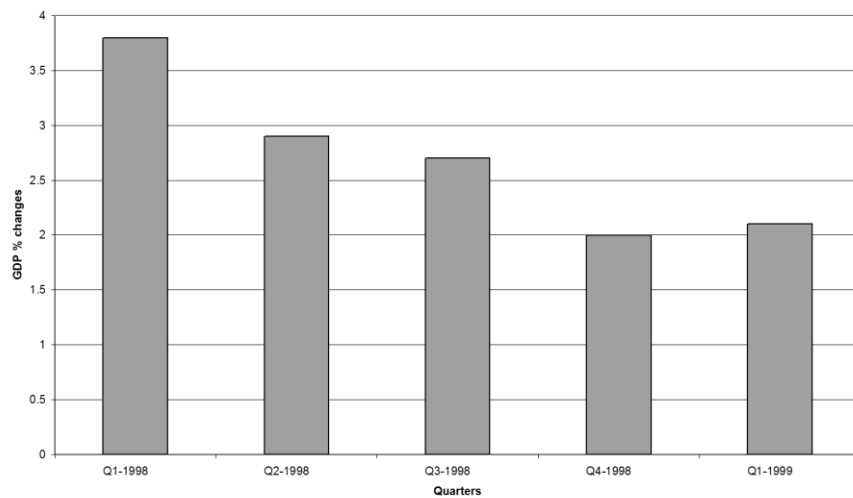
On the other hand, the recently established Euro-zone was experiencing the highest aggregate unemployment rate since the 1930s. This was compounded by a marked slowing of the GDP, contrary to the United States, which was characterised by a persistence of unusually high levels of growth.

Figure 0-2: Unemployment rates 1970-2000



Source: Eurostat

Figure 0-3 Euro-area GDP % changes 1998-1999



Source: ECB

The situation was particularly worrisome in Italy, which had been happily ousted from the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in September 1992. This event allowed some breathing space to a country that had lost most of its competitiveness due to its permanence in the ERM.

By 1999, the state of the economy was not only serious in Italy, where unemployment was approaching 12% and GDP growth had fallen to only 0.8% in 1999; but also in Germany, where unemployment exceeded 9% and GDP growth fell from 2% in 1998 to 0.6% in 1999; and in France as well, where unemployment was at 11% and GDP growth slowed from 3.4 in 1998 to 2.1 in the second quarter of 1999.

Table 0-1: GDP growth and unemployment in the euro-area 1998-1999

	<u>Unemployment rate (%)</u>		<u>GDP growth rate (%)</u>		
	<u>98</u>	<u>99</u>	<u>98</u>	<u>99-Q1</u>	<u>99-Q2</u>
Austria	4.7	4.3	3.3	1.7	1.7
Belgium	9.5	9	2.9	1.7	1.7
Finland	11.4	10	5.6	3.4	3.3
France	11.7	11	3.4	2.4	2.1
Germany	9.4	9.1	2	0.6	0.6
Ireland	7.8	6.7	8.9		
Italy	11.9	11.4	1.3	0.8	0.8
Netherlands	4	3.2	3.2	3.1	3.1
Spain	18.8	15.6	4	3.2	3.6
Portugal	5.1	4.8	3.5		

Source: Eurostat

Note: Greece is not included in the table because in the year 1999 it was not yet part of the Euro-area.

That the problem of the future Euro-zone would be competitiveness much more than the inflation rate was indeed very clear also to the European Institutions. The European Commission had already published the “White paper on growth, competitiveness and employment” in 1993 which claimed that:

“Increasing the rate of growth which the economy of the Community can sustain for many years and boosting the employment content of growth requires a strategy based on three inseparable elements:

1. The creation and the maintenance of a macroeconomic framework which, instead of constraining market forces, as often happened in the recent past, supports them;
2. Determined actions in the structural area aimed at increasing the competitiveness of European industry and removing the rigidities which are curbing its dynamism and preventing it from reaping the full benefits of the internal market; an adequate framework for developing new market opportunities should be created;
3. Active policies and structural changes in the labour markets and in the regulations limiting the expansion of certain sectors (notably the service sector) which will make it easier to employ people and will therefore increase the employment content of growth.^{1”}

Although a lot of emphasis was then placed on an employment strategy resting upon the elimination of the rigidities of the labour markets, the need to boost the competitiveness of the EU still did not disappear from the rhetoric of EU institutions. Calls for full support to structural changes aimed at improving competitiveness at both the national and the European level were duly reiterated in the conclusions of the European Council meeting at Essen in December 1994².

After the White Paper and the Essen agreement, the European Council meeting in Florence on June 1996 also focused on the subject of growth and employment³ calling on the social partners to continue to promote a wage policy favourable to employment and competitiveness⁴. A brand new title on employment by the EC Amsterdam Treaty⁵ somehow abandoned the emphasis on competitiveness marking the final shift towards the liberal approach to employment that had taken place since the White Paper and the Essen European Council decisions.⁶

However, with the Lisbon strategy, competitiveness re-gained centre stage in the strategic vision of the European institutions. At Lisbon 2000, the European Union set a new, strategic aim to be achieved by 2010: becoming the most competitive and dynamic knowledge-based economy in the world. Not only should full employment be achieved, defined as raising the total EU employment rate to 70% and increasing the number of women in employment to more than 60% by 2010;⁷ but this should also be carried out by innovative means and with social cohesion. The Lisbon strategy hinged on economic and social pillars. The economic pillar stressed the importance for the EU to create the basis for a transition to a competitive, dynamic knowledge-based economy, emphasising in particular the role of the information society and research and development to improve the competitive position of Europe. The social pillar was aimed at modernizing the European social model, boosting human resources and fighting against social exclusion. The Gothenburg European Council meeting in June 2001 even added an environmental pillar inserting a new sustainable dimension to economic growth based on natural resource utilisation⁸.

The progressive and forward-looking elements of the Lisbon strategy, however, were not destined to be implemented, and the programme was progressively voided of any substance simply becoming ancillary to the restructuring of labour markets and even austerity⁹.

As Torres and Bongardt put it:

“It is probably fair to say that the more immediate concerns with economic results somewhat eclipsed long-term sustainability concerns and their implications for future growth in the EU policy discussion (Bongardt and Torres 2016:34).”

Already in the Stockholm European Council in 2001 it was clear that the aim of full employment by 2010 through innovation and research and development policy was unachievable. Consequently, the Barcelona Council in March 2002, although it confirmed that full employment was the overarching goal of the EU, auspicated that the

Lisbon strategy relied on a reinforced employment strategy. After the mid-term review of the Lisbon strategy by Mr. Kok, in February 2005, the Commission presented a communication on growth and jobs which proposed a new start in which much less emphasis would be placed on innovation and sustainable development and much more on delivering the two goals of more robust and lasting growth and more and better jobs (Bongardt and Torres 2016:34). Finally, as part of the so-called Agenda 2020, the EU set, as a target for employment, that by 2020 75% of people aged between 20 and 64 should be in work¹⁰.

Clearly, the Lisbon Strategy, especially in its original version, was meant to relaunch the EU within a changed context of global competition. This required a shift to a new sustainable development model based on the information society, innovation and the knowledge economy. In this way, the reasons for the enhanced importance of competitiveness in the debate from the 1990s onwards cannot be disentangled from the process of globalisation¹¹.

However, that EMU would pose more challenges to the competitiveness of the Euro-zone was clear from the start. As any standard handbook of macroeconomics would underline, the costs and benefits of currency unions depend on whether the chosen currency area meets the requirements of an optimum currency area (OCA) or a sustainable currency area. If this is not the case, as scholars almost unanimously portray the case of the EMU, then the adoption of a single currency with a related loss of exchange rate controls deeply modifies the competitiveness of the member states¹².

The reminder of this article is therefore devoted to addressing the question of how the main socio-economic sectors within the most important EU member states have tried to exploit the process of European monetary integration to enhance their competitive position not only in the context of the EU, but also in the global arena. To this aim, the article will focus on the role played by the ECB. It will first analyse how the ECB's monetary policy in the first years of the EMU and exchange rate policy of 'benign neglect' vis-à-vis devaluation of the exchange rate tried precisely to address the need to enhance the competitiveness problem of relevant members of the Euro-area. In the second part, the role played by the ECB in the crisis of the Euro-zone and after, with the enacting of the QE will be studied. The aim is to address to what extent the ECB, more than worrying about monetary stability helped the leading socio-economic sectors in the Euro-zone to regain competitiveness.

The ECB: neo-liberalism but not against the leading socio-economic groups!

Although the literature widely portrays the European Central Bank as the most evident example of neo-liberal ideology,¹³ a different interpretation of the first years of its monetary policy making may be proposed.¹⁴ It is certainly true that the ECB is a unique monetary institution, in charge of the implementation of the monetary policy of a common currency area lacking full political and fiscal integration. Consequently, there

were many worries about the performance of the ECB at the moment of its establishment. These were expressed with respect to the credibility of the ECB's monetary stance, to a lack of democratic accountability, transparency and flexibility as well as its capacity to withstand the pressures coming from the governments of Euro-area Member States, especially the most powerful ones.

Indeed, although the ECB is one of the most independent of all central banks¹⁵, pursuing the only aim to ensure price stability defined by its statute as an HICP of below 2%, it is possible to outline a more intergovernmentalist understanding of the working of this institution. In fact, although, the independence from political constraints, both national and supranational, allowed central bankers to concentrate theoretically only on monetary variables, in practice, the reality of the monetary policy implemented by the ECB in its first years demonstrates that considerations about the performance of real variables, especially in some Euro-area Member States, have played a significant role.

An early contribution by the CEPR,¹⁶ already pointed out how the ECB displayed much more flexibility than expected from the start, at the expenses of transparency. This was possible thanks to the adoption of a so-called “two pillar” monetary policy strategy. Instead of targeting directly the level of prices, as has been customary in other institutional settings, the two pillar monetary strategy is a policy based on targeting the growth of M3 to achieve the aim of an HICP between 0 and 2%. Such monetary targeting represents the first pillar of the monetary strategy, the second being a number of unspecified indicators, including the exchange rates and asset prices, which the ECB evaluates in order to decide whether or not to intervene. Such an approach also makes it very difficult to understand the motivations behind any decisions of the ECB, and, therefore, makes them far less likely to be put under scrutiny by public opinion, politicians and even the markets. Summing up, in the trade off-between transparency and flexibility, the adoption of the two-pillar monetary strategy clearly favours flexibility. If this is the case, the first issue to assess is the importance the ECB attributed to exports and growth in the Euro-area, especially in some countries, as opposed to price stability.

As noted at the start of this article, at the beginning of EMU the European economies were experiencing a serious downturn. Just as Japan had already been in recession for some year, and the US saw its first fall in the growth rate after a decade in 2001, also the euro-zone slowed significantly in 2001 (Figure 7.1). Such a slow-down was particularly marked in the three most important export oriented economies of the Euro-zone: Germany, France and Italy (Figure 7.2).

Figure 7.1 Real GDP % changes, 1999–2004

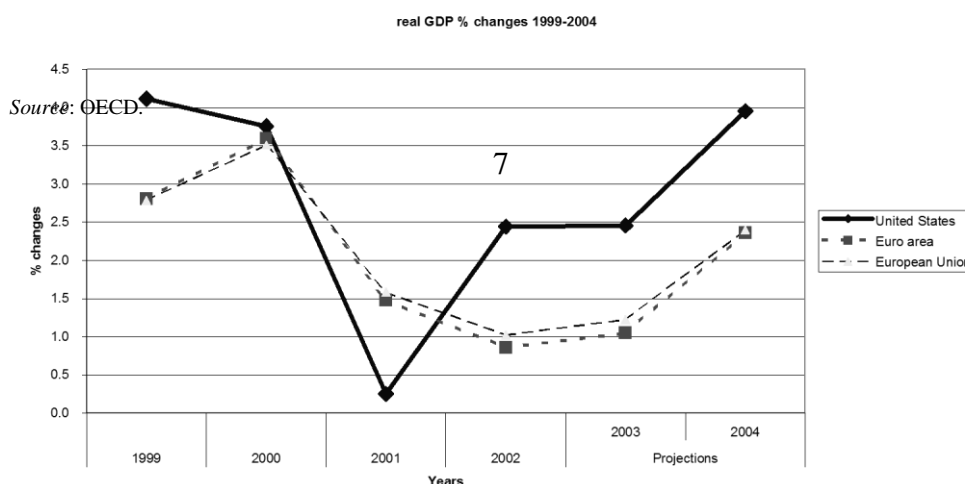
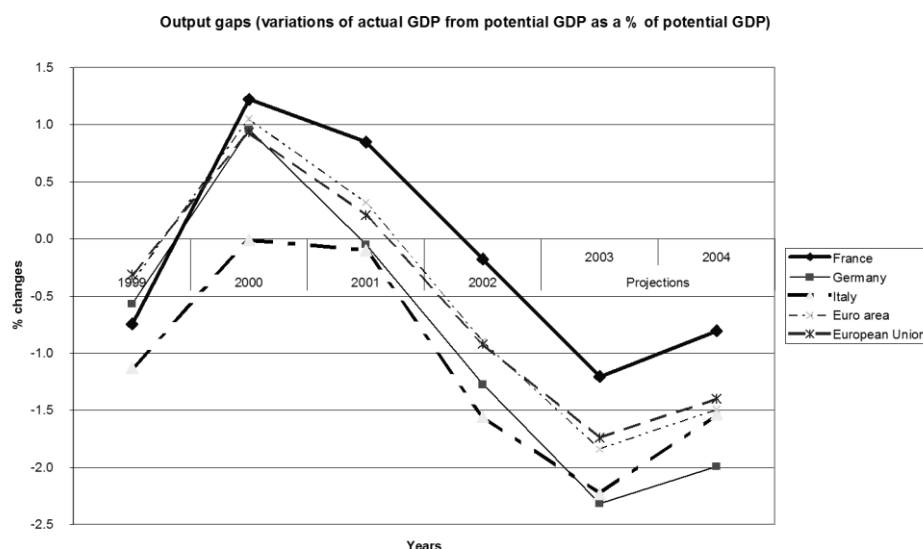


Figure 7.2 Output gaps



Source: OECD.

Although, in theory, the ECB should have paid little attention to the performance of the real economy and, therefore, geared its monetary policy only towards achieving the aim of price stability through the two pillar monetary policy, many analyses¹⁷ at the time underlined how this was not the case in practice.

The CEPR (2002), for example, clearly shows that interest rate changes by the ECB during this period reflected the aim of output stabilisation and not that of simply controlling inflation, despite the constant denials of its members (CEPR 2002). The lowering of the interest rate by 30 points on the 1st of January 1999 could only be justified by concerns about the deflationary pressures of the Asian crisis. Moreover, the cutting the interest rates to 2.5% in April 1999 was associated with the fall in output rates of major Euro-zone countries, particularly Germany. Last but not least, the ECB reacted to the terrorist attacks of September the 11th by reducing the cut the minimum bid rate on the euro-system's main refinancing operation by 50 points to 3.75 on 17 September 2001 (ECB, *Monthly Bulletin*, various issues).

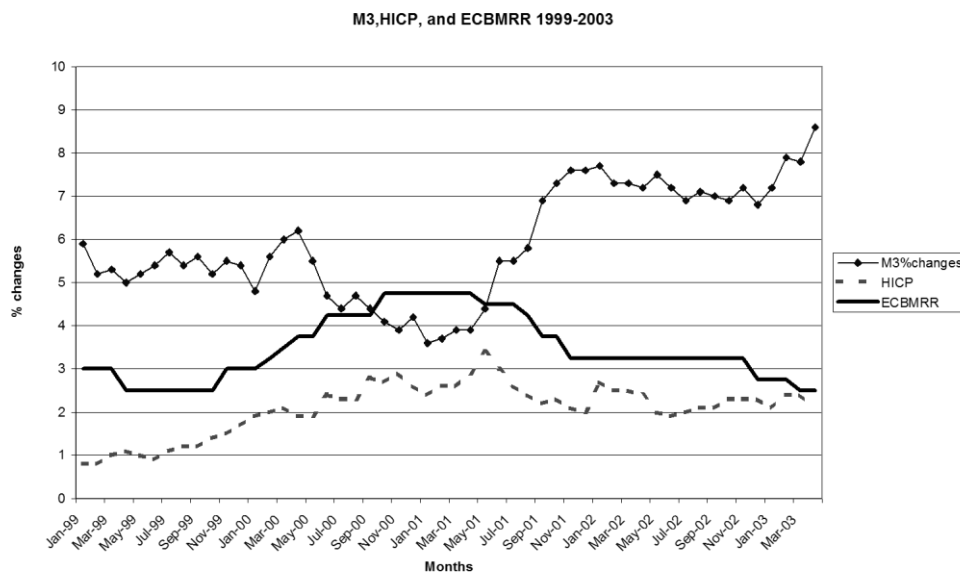
Where does this leave the two pillar monetary policy strategy and, in particular, the monetary growth target? Officially, the target for M3 growth should have been the main reference for ECB monetary policy decisions. However, the M3 growth target, publicly set at 4.5 per cent, was constantly overshoot in the first years from the establishment of EMU without producing any cuts in the ECB refinancing rates, nor, for that matter, any reactions by financial markets. Quite to the contrary, the ECB, instead of increasing the interest rates sometimes even cut them in the face of increasing M3 growth.

From the figure below, comparing M3 growth, HICP and the ECB main refinancing rates, it is possible to note how the monetary aggregate managed to be below the threshold of 4.5% only for a very short period between September 2000 and June 2001, when it started increasing constantly. Paradoxically, however, precisely at the same time the ECB started cutting its MRR, the HICP decreased! It might be argued that there is a time lag between the increase in M3 growth and the increase in prices, but until at least March 2003, i.e., two years later, such a lag had not manifested itself as the inflation rate for the Euro-area did not increase, remaining comfortably around 2%, while the MRR decreased abundantly. There seems to be indeed little relation between how M3 growth performed, how the HICP changed and, also, how the ECB decided to set its interest rates.

It is no surprise that, as a result, the experts legitimately suspected that the M3 target was never really given the importance implicit in the adoption of the ‘two-pillar’ strategy, whereas pragmatic considerations about the level of output clearly prevailed.

Given this lack of reliance on the first pillar of the monetary strategy, the ECB first reacted by modifying the way in which it calculated M3 growth, and then abandoned the 4.5% target altogether, avoiding to specify any target for the growth of the monetary aggregate.

Figure 7.3 M3, HICP and ECB main refinancing rate % changes, 1999–2003



Source: OECD.

As far as the second pillar of the monetary strategy is concerned, its role in the monetary policy of the ECB is also not very clear.¹⁸ In theory, a set of indicators should

be assessed by the ECB to ascertain to what extent the economies of the Euro-zone are likely to overheat and, therefore, bring about a higher level of prices. Among such a set of indicators is the Euro-exchange rate, whose depreciation should signal to the ECB the possibility of an increase of the inflation rate. However, although the Euro had been depreciating constantly in its first years from establishment, the Bank did not seem particularly worried and appeared to have adopted its attitude of benign neglect vis-à-vis the exchange rate of the Euro.¹⁹

Between August 1999 and August 2000, the newly born Euro-zone currency lost around 15 per cent of its value vis-à-vis the dollar, losing parity in January 2000. The effective nominal and real exchange rate of the Euro decreased respectively by 11.3 and -10.1 in the same period, but the ECB did not react. This is particularly puzzling given the worries about the credibility of the monetary policy making of such a unique monetary institution that could have been threatened by a strong depreciation of the Euro.

Figure 7.4 US\$/euro exchange rates, 1999–2004



Source: ECB.

Of course the ECB did stress that it was necessary to assess the performance of the currency in the long-run. And indeed, after a period of stability, the Euro did appreciate substantially vis-a-vis the dollar, although one might also talk about a strong depreciation of the dollar in the face of the first recessive wave in the US after more than a decade (see above).

Despite this, this policy of benign-neglect lends itself to other interpretations.²⁰ To cut the story short, it could be possible to interpret the ECB's preference for a bit more flexibility in exchange of a bit less transparency as a pragmatic way to address the quest

for competitiveness of, in particular, the most powerful members of the Euro-zone and their leading socio-economic sectors. An objective that could hardly be considered acceptable given the ostensibly strict anti-inflationary mandate of the ECB.²¹ Within this context, and as suggested by Colin Crouch, the attitude of the ECB towards the performance of the exchange rate in the first two years from the establishment, an attitude that the economists at the time could hardly fully explain²², becomes much more intelligible especially by looking at the performance of the manufacturing export of the Euro-zone, and, in particular, of Italy, France and Germany²³. It is indeed difficult to deny that the export-oriented manufacturing sectors gained the most from the initial depreciation of the Euro.

Just to give an example, focusing on changes in the balance of trade in goods with the US between 1999 and 2001, Italy improved its trade balance from 0.7 per cent to 1.2 per cent, France from -0.3 per cent to 0.55 per cent and Germany from 0.6 per cent to 1.5 per cent (Talani 2014). However, as correctly predicted by Colin Crouch, this approach to increase the competitiveness of the export-oriented sectors of leading Euro-zone countries could only work in the short run. The situation was soon reversed once the dollar started depreciating vis-à-vis the Euro, which came about as a consequence of the expansionary monetary policies adopted by the US to react to the recession of the early 2000s. It left Euro-zone countries with the problem of increasing economic competitiveness in the wake of increased globalisation of the world economy²⁴.

We move therefore to the next phase in the role played by the ECB to save the Euro-zone from a crisis of competitiveness.

The ECB to the rescue of the Eurozone after the Global Financial crisis

It should not surprise that the only effective policy able to stop speculation against the periphery of the Euro-area PIIGS could be the European Central Bank acting as a hidden lender of last resort and an open “saver” of last resort. As already noticed above, this kind of intervention by the ECB has been advocated widely in the literature²⁵. Unfortunately, the European Central Bank is still far from becoming the official ‘lender of last resort’ of the euro area, as would be natural in any currency union.

However, already in September 2008, with the collapse of Lehman Brothers, the ECB had started intervening by adopting a ‘non-conventional’ monetary policy alongside its standard measures. The non-standard approach to monetary policy inaugurated by Trichet immediately after the Global Financial Crisis (GFC) became evident, relied initially on two programs: the ‘enhanced credit support (ECS)’ and the ‘securities markets program (SMP)’. The first program includes two elements: (a) increasing the share of liquidity supplied at its long-term refinancing operations (LTROs) relative to its regular main refinancing operations (MROs); and (b) increasing

the maturity structure of its LTROs. The most important characteristic of this novel approach to monetary policy making is that ECB would provide re-financings on a 'fixed-rate full allotment' basis, and not on a variable rate tender format as before. To be clear, this means that, contrary to what happened in normal times, all financial institutions could obtain all the liquidity they wanted at a fixed, and incredibly low, interest rate. In addition, the ECB would accept toxic assets (such as mortgage-backed securities) as collateral in its refinancing operations. Finally, the number of financial institutions eligible to be refinanced by the Eurosystem increased from 140 to around 2000 and they were also protected by anonymity, ostensibly to avoid domino effects²⁶.

Since 2008, there have been two liquidity providing long-term re-financing operations in Euros with a three year maturity, one maturing on 29 January 2015 and one on 26 February 2015, together with US dollar liquidity providing operations. Similar operations were very interesting for the banking sector as they allowed it to borrow liquidity from the ECB at a very low interest rate (see figure below) and use the money to buy the sovereign debt of struggling countries bearing much higher interest rates, thus profiting from the difference. The consequences of this practice was on the one hand, that a lot of the sovereign debt of the countries in crisis ended up in the balance sheets of the banks, especially of the stronger member states. On the other hand, the banks had no incentive in financing the non-financial private sector, thus exacerbating the length and scope of the recession. For this reason, in June 2014 the EC announced a series of still ongoing in 2016 Targeted Longer Term Refinancing operations (TLTROs) aimed at increasing the liquidity of non-financial private actors²⁷.

Date	Deposit facility	Main refinancing operations		Marginal lending facility	
		Fixed rate tenders Fixed rate	Variable rate tenders Minimum bid rate		
With effect from					
2015	9 Dec.	−0.30	0.05	-	0.30
2014	10 Sep.	−0.20	0.05	-	0.30
	11 Jun.	−0.10	0.15	-	0.40
2013	13 Nov.	0.00	0.25	-	0.75
	8 May.	0.00	0.50	-	1.00
2012	11 Jul.	0.00	0.75	-	1.50
2011	14 Dec.	0.25	1.00	-	1.75
	9 Nov.	0.50	1.25	-	2.00
	13 Jul.	0.75	1.50	-	2.25
	13 Apr.	0.50	1.25	-	2.00

Source: ECB <https://www.ecb.europa.eu/stats/monetary/rates/html/index.en.html> as accessed on January, 20, 2016

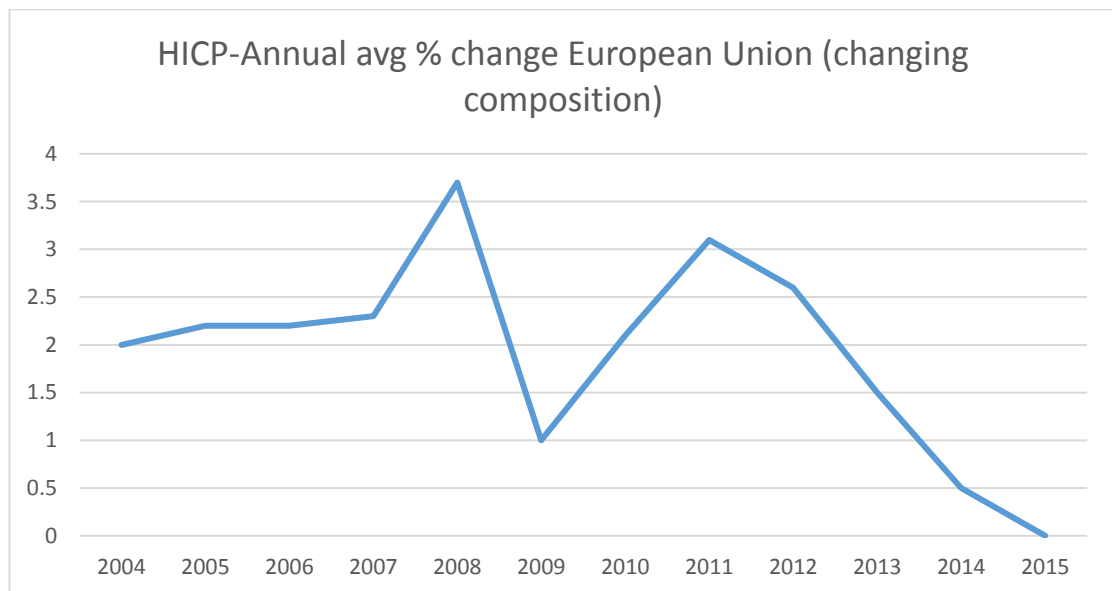
Moreover, always in in May 2009, the European Central Bank started a Covered Bond Purchase Programme (CBPP) allocating 60bn Euros to buy both private and state euro-denominated covered bonds issued by European Area Member States (EAMS) until June 2010. In November 2011 a second Covered Bond Purchase Programme was announced²⁸. The second set of non-standard measures initiated by the ECB to react to the crisis, apart from the enhanced credit support measures, was the Securities Markets Programme (SMP) launched in May 2010 at the onset of the Greek crisis. The SMP allowed the Eurosystem to purchase both private and public euro area debt. However this could be done only in secondary markets, fully sterilised and up to a weekly limit. This, instead of stopping market speculation, might have even stimulated it as by overcoming the weekly threshold just a bit they would beat the ECB and profit from speculation. In fact, only when Draghi announced on 6th September 2012 the replacement of the LTRO by the Outright Monetary Transactions (OMT), which eliminated any limits to the purchase of bonds in secondary markets, the markets stopped going short on the sovereign debt of struggling countries. This happened more than two years after speculation had started. In other words, it took more than two years to the ECB to act as a pseudo “lender of last resort” thus managing to put an end to market speculation against the sovereign debt of the PIIGS.

Although the OMT as well were conditional to the implementation of strict austerity measures by Member states in needs, de facto this was not a problem as the OMT in practice did not need to be ever activated. To stop speculation it was enough for the markets to know that the ECB would buy every single bond sold by speculators, thus making profits impossible. This, in the opinion of the author of this article, and contrary to Chang and Leblond (2013)²⁹ does not signal the start of any solidarity by EU institutions in favour of the weaker countries, but the redressing of an evident anomaly, that is not having a lender of last resort for the Euro-zone. The real question is why this could happen and why only at such a late time. Regarding the first issue, why was the ECB allowed to intervene without limits, the intergovernmentalist explanation makes some sense as, as explained by Moravcsick (2012),³⁰ Germany could hardly afford the collapse of the EMU at that time. Maybe things will be different with the forthcoming agreement on TTIP, but this is still a matter of speculation. However what is important is to understand is why intervention was allowed so late. With respect to this issue it seems that Gill’s (1997)³¹ neo-constitutionalism provides an extremely useful heuristic framework. Indeed, waiting until when the system was on the verge of collapse did naturally put a lot of pressure on the governments of the PIIGS to implement precisely those neo-liberal reforms which were so much supported by the transnationalist historic block as well as by the dominant national coalitions of interests. These reforms included the usual set of liberalisation and privatisation measures and, of course, further steps in the flexibilization of labour markets in all its dimensions, including reducing labour

protection and decreasing wages. The pressure exerted by the two years of emergency mode most definitely had an impact on the nature of the policies implemented by the governments under attack. Whether this was in the best interests of the given country or even of the capitalist class of that country remains to be seen.

Indeed, the austerity promoted to react to the sovereign debt crisis ended up in deflation, which is most likely one of the worst nightmare of the capitalist class as it signals the contraction of demand and, consequently, the contraction of profits. Also in this case the ECB intervened, but, this time, without much of a lag, with the quantitative easing (QE) programme inaugurated by the ECB on January 22, 2015. This meant putting 60bn Euros a month into the system until at least September 2016, with the aim of stimulating growth and reversing deflation³². This form of intervention has been confirmed and increased to 80bn a month in March 2016³³.

Regarding this it is important to note that, despite the fact the Euro-area had been in recession for quite some time, QE happened only when the spectre of deflation appeared all over Europe, and not before, when the burden of the global financial crisis was being shifted to the weaker countries and the weaker strata of the EU. Indeed it was precisely in 2015 that the HICP turned to 0 in the whole of the EU (see figure below).



Source: EUROSTAT

CONCLUSION

That the lack of competitiveness of EU Member States in the wake of the globalisation era was a problem from the start of EMU is clear from the various

interventions on this issue by the European institutions. These started from the White paper on Growth, Competitiveness and Employment, of 1993, up to the various versions of the Lisbon agenda and agenda 2020.

It might even be possible to hypothesise, in line with Colin Crouch and the literature on the political economy of competitiveness, that the establishment of EMU was an attempt made by the dominant socio-economic sectors of the Member States to regain some of the competitiveness lost with the advent of the globalisation era.

Accordingly, the role of the ECB to save the Euro-zone dominant socio-economic sectors has been divided into two phases. In the first phase, the strategy was to rely on the depreciation of the Euro vis-à-vis the dollar, which indeed gave some results in the first years of life of the European currency.

This leaves open the question of EU competitiveness to the present day, or better to the days of the global financial crisis.

With respect to this, it is undeniable that the burden of the costs of the global financial crisis was inflicted on the weakest countries of the system, through the two related phenomena of the sovereign debt crisis and the ensuing austerity programmes. This is very far from configuring that solidarity between the EU Member States often recalled in the literature which could only be achieved by the establishment of a true federalist fiscal system, a system that, at the moment, is not even at the stage of infancy.

To be sure, and following Gill (1997), the main feature of the EU approach to crisis management was austerity and ‘internal devaluation’, with all that this mean in terms of increasing inequalities both socially and geographically. This happened despite the rhetoric about the establishment of a new economic governance, or the renewed neo-functionalist credo in the progress towards more integration, and was most likely done disingenuously to ‘discipline’ not only delinquent states, but also subordinated socio-economic groups. As it might be expected this disciplinary attitude did provoke some popular discontent, political instability and disintegration threats but they seem to have been silenced quickly. Only the ghost of deflation was really worrying the dominant transnationalist socio-economic coalition, but this was immediately dispelled by Draghi and his Quantitative Easing.

Short biography:

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¹ European Commission, (1993), White Paper on growth, competitiveness, and employment: The challenges and ways forward into the 21st century, COM(93) 700 final, Brussels, 5 December 1993-
<http://www.europa.eu.int/en/record/white/c93700/contents.html>

² See European Council meeting on 9 and 10 December I Essen-Presidency Conclusions, <http://ue.eu.int/newsroom>

³ The bases for the discussion were represented by: the Commission communication entitled "Action for employment in Europe: A confidence pact", the joint interim report on employment as well as the other documents before it, including the conclusions drawn from the Tripartite Conference on Growth and Employment held in Rome on 14 and 15 June 1996 and the French Memorandum on a European social model. See Florence European Council, 21-22 June 1996-Presidency Conclusions, <http://ue.eu.int/newsroom>

⁴ See Florence European Council, 21-22 June 1996-Presidency Conclusions, <http://ue.eu.int/newsroom>

⁵ See Title VIII, articles 125-130 of the EC Treaty as modified by the Amsterdam Treaty.

⁶ See, for example, Duff, A., (1997), *The Treaty of Amsterdam*, London Sweet and Maxwell

⁷ See <http://ec.europa.eu/social/main.jsp?catId=101&langId=en> as accessed on November 29, 2012

⁸ See Talani, L.S., (2016), *Europe in crisis: a structural analysis*, Introduction and chapter 2, London: Palgrave

⁹ For the debate about the political dimension of austerity see Schafer, A., and Streeck, W., (2013), *Politics in the age of Austerity*, Cambridge: Polity Press

¹⁰ See <http://ec.europa.eu/social/main.jsp?catId=101&langId=en> as accessed on November 29, 2012

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- ¹¹ For more on globalization and the New Global Division of labour see Talani, L.S., 2014, *The Arab Spring in the Global Political Economy*, Overbeeck, Mittlemann, Dicken etc etc.
- ¹² For more on the debate about the OCA theory and the EMU see Artis, M. (2003) 'Reflections on the Optimal Currency Area (OCA) Criteria in the light of EMU', *International Journal of Finance and Economics*, 8, pp. 297-307. Collignon, S. (2002) *Monetary Stability in Europe*. London: Routledge. De Grauwe (1993) 'The Political Economy of Monetary Union in Europe' *The World Economy*. 16(6), pp. 653-661. De Grauwe, P. and Mongelli, F. (2005) 'Endogeneities of Optimum Currency Areas: What brings countries sharing a single currency?' ECB working papers N0.468, pp. 1-40. De Grauwe (2006) 'What Have we Learnt about Monetary Integration since the Maastricht Treaty?' *Journal of Common Market Studies*. 44 (4), pp. 711-730. De Grauwe (2012) *Economics of Monetary Union* 9th ed. Oxford: Oxford University Press. De Grauwe, P. (2013a) 'Design Failures in the Eurozone: Can they be fixed?' London School of Economics "Europe in Question" Series LEQS Paer No. 57/2013. De Grauwe, P. (2013b) 'Foreword', in Marco, M. *The Economics of the Monetary Union and the Eurozone Crisis*. London: Springer. Eichengreen, B. (2014) 'The Eurozone crisis: the theory of optimum currency areas bites back', *Notenstien Academy White Paper Series*, pp. 1-18. Krugman, P. (2012) 'Revenge of the Optimum Currency Area' *NBER Macroeconomics Annual*, 27(1), pp. 439-448. Tavlas, G. (1993) 'The "New" Theory of Optimum Currency Areas'. *The World Economy* 16 (6): pp. 663-685; Tavlas, G. (2009) 'Optimum-Currency-Area Paradoxes', *Review of International Economics*, 17(3), pp. 536-551. Contrary Schelkle, W. (2013) 'Monetary integration in crisis: how well do existing theories explain the predicament of EMU?'. *Transfer*, 19 (1): pp. 37-48. Schelkle, W. (2015) 'The Insurance Potential of a Non-Optimal Currency Area', in Cramme, O. and Hobolt, S, (2014) *Democratic Politics in a European Union Under Stress*. Oxford: Oxford University Press, pp.137-154.
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- ¹⁵ For a similar interpretation see Berger et al. (2000); see also Cukierman et al. (1992).
- ¹⁶ See CEPR (2000).
- ¹⁷ For some quotations see CEPR (2002).
- ¹⁸ See CEPR (2000), for a similar interpretation.
- ¹⁹ Intervention of the central banks in favour of the euro in the summer 2000.
- ²⁰ Doubts on the behaviour of the euro exchange rates have been expressed by many economists. See, for example, Koen (2000); Artis (2003).
- ²¹ About the effective mandate of the ECB there is a huge debate within the academic community. See, for example, CEPR (2002).
- ²² See Artis (2003).
- ²³ See Talani, L.S., (2014), *European Political Economy*, London: Routledge/Ashgate
- ²⁴ For more on the author's conception of Globalisation, see Talani 2014.
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³³ See Telegraph on line <http://www.telegraph.co.uk/business/2016/03/10/ecbs-draghi-plays-his-last-card-to-stave-off-deflation/> as accessed on March 21, 2016